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SUBJECT: U.S. - NICARAGUA TRADE GROWING UNDER CAFTA-DR

REF: MANAGUA 522

Summary

1. (SBU) Nicaraguan exports to the United States increased by 17.4 percent, up from \$733 million to \$910 million, during the first 12 months of CAFTA-DR. Excluding maquila, data show Nicaragua exports were up 8.2 percent, from \$541 million to \$585 million. In addition to maquila, other sectors showing strong growth were sugar, coffee, cigars, cheese, and fresh fruits and vegetables. President Ortega has muted his public criticism of the agreement, and he even acknowledged that CAFTA-DR brings some benefit to the country. Attracting new investors to take advantage of the agreement, however, has become more difficult according to representatives of ProNicaragua. End summary.

U.S. - Nicaragua Trade up 15.8 Percent

2. (U) During the first 12 months of CAFTA-DR (04/01/06 - 03/31/07), total trade between the United States and Nicaragua increased 15.8 percent, from \$1.91 billion to \$2.21 billion, compared to the previous 12 month period (04/01/05 - 03/31/06), according to USITC trade data. Nicaraguan exports to the United States increased by 17.4 percent, up from \$733 million to \$910 million. Excluding maquila, data show exports were up 8.2 percent, from \$541 million to \$585 million, contrary to a recent public claim made by a Ministry of Trade, Industry, and Development (MIFIC) official that nonmaquila trade fell 0.1 percent. Meanwhile, U.S. exports to Nicaragua increased by 12.7 percent, from \$634 million to \$715 million. The following table summarizes these trade flows:

U.S. - Nicaragua Trade
U.S. Dollars

	04/01/2005- 03/31/2006	04/01/2006- 03/31/2007	Percentage Change
U.S. Exports to Nicaragua			
Maquila	58,226,534	55,830,635	-4.1%
Other	575,888,799	658,671,546	14.4%
Total	634,115,333	714,502,181	12.7%
U.S. Imports from Nicaragua			
Maquila	732,815,134	910,292,040	24.2%
Other	541,206,958	585,341,487	8.2%
Total	1,274,022,092	1,495,633,527	17.4%
U.S. Trade Balance with Nicaragua			
Maquila	-674,588,600	-854,461,405	26.7%
Other	34,681,841	73,330,059	111.4%
Total	-639,906,759	-781,131,346	22.1%

Maquila and Traditional Exports Show Strong Growth

13. (U) Maquila (apparel) exports from Nicaragua to the United States showed strong growth during the first 12 months of CAFTA-DR, increasing 24.2 percent, from \$733 million to \$910 million. These exports accounted for about 61 percent of total Nicaraguan exports to the United States, up from just under 58 percent the previous year.

14. (U) Growth outside the maquila sector was also robust, with traditional exports leading the charge. Nicaraguans took advantage of a CAFTA-DR tariff-rate quota (TRQ) to increase sugar exports from \$14 to \$33.5 million, while coffee exports jumped from \$58.5 to \$81.7 million thanks to high world prices. Shrimp exports fell slightly from \$70.5 million to \$69.3 million, likely owing to increased exports from Asia and Ecuador. Cigars, which before CAFTA-DR were subject to a specific tariff of 0.57/kilogram and an ad valorem tariff of 1.4 percent, now enter the United States duty free, and exports are up 15 percent from \$28.9 to \$33.3 million. Gold exports remained stable at \$27.1 million, while exports of wire harnesses for automobiles fell slightly from \$124.5 to \$120 million. These six goods, which together account for 24 percent of Nicaraguan exports to the United States, saw 12.8 percent growth under CAFTA-DR, up from \$324 to \$365 million.

Modest Growth Elsewhere, but Some Bright Spots

15. (U) Outside of maquila, sugar, coffee, shrimp, cigars, gold, and wire harnesses, which combined account for 85 percent of Nicaraguan exports, growth under CAFTA-DR was a modest 1.3 percent. However, several sectors showed much higher growth, including beef, which grew 38 percent from \$55 to \$61.7 million. Cheese exports also increased dramatically, up 56.7 percent from \$3.2 to \$5 million. Nicaraguan producers quickly filled Nicaragua's 625 metric ton TRQ for cheese under CAFTA-DR, and government officials have indicated that they may formally request additional TRQ access this year.

16. (U) Several agricultural cooperatives have been particularly successful in taking advantage of enhanced market access under CAFTA-DR to reach niche markets in the United States for Latin cheeses. Among them stands out the San Francisco de Asis cooperative, which before CAFTA-DR exported 30,000 pounds of cheese each month but now exports that amount in a week. USDA and USAID assistance in food safety has been critical to growth in this sector as firms have improved their processing facilities to meet U.S. sanitary standards.

17. (U) Also benefiting from USG technical assistance in the agricultural sector, Nicaragua has exported \$3.3 million in fresh peppers to the United States during the first year of CAFTA-DR, up from \$250,000 the previous 12 months. Other fruits, vegetables, and roots and tubers have showed strong growth as well, with total exports for the sector increasing from \$8.7 to \$31.8 million. Cosfrunic, a rural cooperative with 69 members, now regularly exports vegetables such as okra--which previously faced a 20 percent tariff--to the United States. Several other small cooperatives have seen similar success exporting vegetables that formerly faced specific tariffs of several cents per kilogram or ad valorem tariffs of 5 to 20 percent.

18. (U) Rum exports increased from \$1.7 to \$2.5 million during CAFTA-DR's first 12 months. Handicrafts such as hammocks, on which importers previously paid 14 percent duty, have also shown growth, though total volume is still very low. Although both had duty-free access to U.S. markets before CAFTA-DR, furniture exports increased from \$463,000 to \$1.8 million over the past year, while billiard table exports grew from almost nothing to \$737,000.

U.S. Exports Show Broad Growth

19. (U) U.S. export growth--up 12.7 percent, from \$634 million to \$715 million--was spread evenly across many sectors, with petroleum

products, pharmaceutical products, fertilizer, vegetable oils, and basic grains among the most important sectors. Corn exports grew by 61 percent, from \$12.1 to \$19.6 million, while for most dairy products, TRQs went unfilled and growth was modest. U.S rice exports for the period fell from \$44.9 to 36.8 percent, an 18 percent decrease.

Comment

¶10. (U) The one-year anniversary of CAFTA-DR passed quietly in Nicaragua despite strong evidence that the private sector is beginning to take advantage of preferential access to U.S. markets. Small businesses and cooperatives, several of which are described above, have found niche markets in the United States for a variety of products. On a larger scale, representatives of ProNicaragua (the government-run investment promotion agency) report that since CAFTA-DR went into effect, 17 companies have announced \$318 million in new investment that will create 13,880 new jobs.

¶11. (SBU) ProNicaragua officials report, however, that the task of attracting new investment has become more difficult of late. President Ortega's constant rhetoric, lambasting of big business and "savage capitalism," has no doubt played a role in that regard. On the other hand, Ortega recently acknowledged in public that the agreement brings some benefits to Nicaragua, perhaps signaling a softening of his campaign position that CAFTA-DR must be renegotiated. What is clear is that the Sandinistas will do little to publicize the positive impact the agreement has had and the potential it still holds. That task will fall squarely on the U.S. government, with support from the private sector here. End comment.

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